

Rating Update: Reno (City of) NV

Moody's downgrades to Baa3 from A3 the City of Reno, NV Taxable Senior Lien Room Tax Revenue Refunding Bonds (Retrac-Reno Transportation Rail Access Corridor Project) Series 2006

\$8.1 million of debt affected; Negative outlook assigned

RENO (CITY OF) NV
Cities (including Towns, Villages and Townships)
NV

Opinion

NEW YORK, August 06, 2012 --Moody's Investors Service has downgraded to Baa3 from A3 the rating on the City of Reno, Nevada's Taxable Senior Lien Room Tax Revenue Refunding Bonds (ReTRAC-Reno Transportation Rail Access Corridor Project) Series 2006 outstanding in the amount of \$8.1 million. The rating carries a negative outlook. The bonds are secured by a senior lien pledge on a dedicated 1% hotel room tax applied to all accommodations located within a 45 square block area within Reno's downtown. Bond proceeds were originally issued to partially prepay a ReTRAC project loan between the U.S. Department of Transportation (USDOT) and the city as well as fund various reserve accounts.

SUMMARY RATING RATIONALE

The Baa3 primarily reflects very thin coverage of annual debt service following a trend of significant declines in pledged revenues. The rating also incorporates the narrow pledge of room taxes within a limited geographical area, and a sound legal structure that includes cash-funded reserves available to support level annual debt service requirements.

The negative outlook reflects expectations that pledged revenues will remain challenged over the medium-term and that the city may need to make small draws on the cash-funded supplemental reserve in order to make debt service payments.

STRENGTHS

- Taxable base includes majority of region's largest hotels and tourist attractions
- Multiple reserve funds available to support debt service amid declines in pledged revenues

CHALLENGES

- Narrow pledge of passive and economically-sensitive room taxes
- Expected slow, uneven economic recovery

DETAILED CREDIT DISCUSSION

DEDICATED SPECIAL TAX PLEDGE WITHIN LIMITED TAXABLE BASE; ECONOMIC DOWNTURN RESULTS IN DECLINING REVENUES

The pledged revenues consist of hotel room tax revenues, net of collection fees, generated from a 1% room tax rate applied to all accommodations (except for rentals of 28 days or longer) in a 45-square block area of Reno's (GOLT rated Aa3/NEG) downtown, also known as the "Police Protection Area". The city began levying the pledged room tax revenues in January 1999; these monies may only be used for the Reno Transportation Access Corridor (ReTRAC) project or other grade separation projects. The hotel base generating the pledged revenues is limited and concentrated with roughly one-third of the rooms available within Washoe County (GOLT rated Aa2). The ten largest hotels in the Police Protection Area, many of which are the major casino hotels in Reno, comprise 87% of the total rooms available.

Due to the national economic downturn which was felt much more acutely in the Reno area, pledged revenues declined substantially, resulting in coverage of maximum annual debt service falling to 1.08 times as of fiscal 2011. Significantly, unaudited results for fiscal 2012 reflect a still challenged economy and visitor industry as pledged revenues declined another 6.5% which results in coverage of MADS at only 1.01 times. Since 2002 pledged revenues have only increased twice, in years 2005 and 2006, and even those years were followed by substantial declines. Specifically, pledged revenues peaked in fiscal 2006 and then declined by a sizable 41.2% through fiscal 2011 amid a weakened economic environment. The Reno Sparks Convention and Visitors Authority's recent 2013 forecast expects some improvement in room collections and the city is budgeting a modest 2.0% increase in pledged revenues which should result in coverage of MADS leveling off at current levels.

LOCAL ECONOMY REMAINS IN RECESSION; TOURISM FACES COMPETITIVE PRESSURES

The City of Reno (Aa3/NEG) is located in the northwest portion of the state in Washoe County. The city's major employers are a mix of stable entities including the school district, higher education and a large healthcare provider as well as gaming, resort and leisure entities. As of May 2012 the city's unemployment rate has continued its steady improvement but still remains above average at 11.6%, which was above the nation (7.9%) and approximated the state (11.6%). Broad economic downturn has negatively impacted tourist visits to the area. The local hospitality and gaming activities (a large portion of which are situated within the Police Protection Area) draw visitors from around the Western Coast, but Reno also faces long-term competition from Native American gaming facilities and other cities with notable gaming attractions.

SATISFACTORY LEGAL PROVISIONS

Legal provisions for the current offering are sound with a debt service reserve requirement equal to maximum annual debt service (MADS) and an additional bonds test equal to 1.5 times MADS. Importantly, the ordinance also provides for a supplemental reserve equal to MADS to be funded from 50% of remaining revenues after paying debt service. The supplemental reserve is currently fully funded with cash equal to MADS and would provide substantial cushion in the event coverage falls below sum-sufficient.

WHAT COULD MAKE THE RATING GO UP (Remove Negative Outlook)

- Trend of increased pledged revenues resulting in improved coverage of maximum annual debt service

WHAT COULD MAKE THE RATING GO DOWN

- Sustained debt service coverage levels below sum-sufficient
- Depletion of reserve funds

KEY STATISTICS

2011 Pledged hotel tax revenues: \$682,000

2012 unaudited pledged hotel tax revenues: \$637,388

Coverage of peak debt service (in 2034) by FY 2011 revenues: 1.08 times

Coverage of peak debt service (in 2034) by unaudited FY 2012 revenues: 1.01 times

Average annual growth rate in pledged revenues, 2007 to 2011: -8.2%

Largest single year decline in pledged revenues and percentage: 2009, 25.8%

Additional bonds test: 1.5 times maximum annual debt service by the average of the two prior years' pledged revenues

Debt service reserve fund requirement: Equal to maximum annual debt service

The principal methodology used in this rating was U.S Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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